

1 **BEFORE THE INSURANCE COMMISSIONER**  
2 **OF THE STATE OF CALIFORNIA**  
3 **SAN FRANCISCO**

4 In the Matter of

5 **ADMIRAL INSURANCE COMPANY,**

6 **ADMIRAL RISK INSURANCE**  
7 **SERVICES, INC.**

8 **ARUTYUN KARAPETYAN**  
9 **aka HARRY KARAPETYAN,**

10 **BRIAN KEITH LINEBERGER,**

11 and,

12 **BENJAMIN LEE MILLER,**

13 Respondents.  
14

**ORDER TO SHOW CAUSE**

**INSURANCE CODE SECTION 12921.8**

File No. 11LA00610-AP

File No. 10LA00557-AP

File No. 11LA00607-AP

File No. 11LA00608-AP

File No. 11LA00609-AP

15 TO: ADMIRAL INSURANCE COMPANY, 1255 CALDWELL ROAD, CHERRY  
16 HILL, NEW JERSEY, 08034, its officers, directors, employees, trustees, agents, affiliates and  
17 service representatives; and,

18 ADMIRAL RISK INSURANCE SERVICES, INC., 888 SOUTH FIGUEROA STREET,  
19 #400, LOS ANGELES, CALIFORNIA, 90017, its officers, directors, employees, trustees, agents,  
20 affiliates and service representatives; and,

21 ARUTYUN KARAPETYAN, BRIAN KEITH LINEBERGER, and BENJAMIN LEE  
22 MILLER, c/o ADMIRAL RISK INSURANCE SERVICES, INC., 888 SOUTH FIGUEROA  
23 STREET, #400, LOS ANGELES, CALIFORNIA, 90017.

24 WHEREAS, ADMIRAL RISK INSURANCE SERVICES, INC. ("ADMIRAL RISK"),  
25 was from November 25, 2003, and now is, the holder of a license issued by the Insurance  
26 Commissioner of the State of California ("Commissioner") to act as a Fire and Casualty Broker-  
27 Agent (License No. 0E020442); (On January 1, 2011, pursuant to AB 2782 (Chapter 400,

1 Statutes of 2010), the fire and casualty broker-agent license was converted into two license  
2 qualifications: property broker-agent license and casualty broker-agent license.) and,

3 WHEREAS, ARUTYUN KARAPETYAN aka HARRY KARAPETYAN  
4 ("KARAPETYAN") was from July 27, 2009, and now is, the holder of a license issued by the  
5 Commissioner to act as a Fire and Casualty Broker-Agent (License No. 0G70351); and,

6 WHEREAS, BRIAN KEITH LINEBERGER ("LINEBERGER") was from August 31,  
7 2006, and now is, the holder of a license issued by the Commissioner to act as a Fire and Casualty  
8 Broker-Agent (License No. 0F32381); and,

9 WHEREAS, BENJAMIN LEE MILLER ("MILLER") was from December 19, 2002, and  
10 now is, the holder of a license issued by the Commissioner to act as a Fire and Casualty Broker-  
11 Agent (License No. 0D83937); and,

12 WHEREAS, ADMIRAL RISK has in this State acted as the managing general agent for  
13 nonadmitted insurer ADMIRAL INSURANCE COMPANY, an affiliated company, and has in  
14 that capacity transacted the business of insurance in this State, including but not limited to the  
15 underwriting and placement of surplus line insurance with California residents; ADMIRAL  
16 RISK also contracted with California surplus line brokers; and, ADMIRAL RISK did not at the  
17 time period from about November 2003 through about June 2011 hold a surplus line broker  
18 license; and,

19 WHEREAS, MESSRS. KAREPETYAN, LINEBERGER, AND MILLER, designated as  
20 "Account Executives" by ADMIRAL RISK, provided surplus and excess liability insurance  
21 policies with ADMIRAL INSURANCE COMPANY through wholesale Surplus Lines Brokers  
22 but did not at the time period from about November 2003 through about June 2011 hold requisite  
23 surplus line broker licenses; and,

24 WHEREAS, California Insurance Code Section 12921.8(a)(3) authorizes the  
25 Commissioner to issue an order to show cause against any person who aided or abetted a person  
26 who has acted in a capacity for which a license, registration, or certificate of authority from the  
27 Commissioner was required but not possessed; and,

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1 WHEREAS, California Insurance Code Section 12921.8(c) authorizes the Commissioner  
2 to issue said order to show cause without holding a hearing prior to issuance of the order; and,

3 WHEREAS, ADMIRAL INSURANCE COMPANY, a nonadmitted insurer, through  
4 ADMIRAL RISK, its managing general agent, established a physical presence in California and  
5 transacted the business of insurance in this State, including but not limited to underwriting, and  
6 has placed surplus line insurance with California residents, without holding either the requisite  
7 licenses or certificate of authority or authorization, in violation of California Insurance Code  
8 section 700; and,

9 WHEREAS, a Management Agreement ("Agreement") by and between ADMIRAL  
10 INSURANCE COMPANY, a Delaware corporation with offices in New Jersey (the "Company"),  
11 and ADMIRAL RISK INSURANCE SERVICES, INC., a Delaware corporation with offices in  
12 California (the "Manager"), was entered into on or about November 25, 2003, unlawfully  
13 delegating certain duties and binding authority to ADMIRAL RISK, provided in part:

14 WHEREAS, the Company, in accordance with the terms and conditions of the  
15 Agreement, desires to appoint the Manager as its legal representative and true and  
16 lawful attorney for the purpose of producing, underwriting and servicing, on its  
17 behalf, business in accordance with the terms as outlined in Appendix A and  
18 Appendix B (the "Business"), including the handling and servicing of all claims  
19 and losses and legal actions resulting or arising therefrom, and the Manager is  
20 desirous of undertaking each appointment;

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23 ARTICLE III – INSURANCE OPERATIONS

24 A. The Manager's Authority

25 The manager is hereby empowered to act under this Agreement as underwriting  
26 manager with respect to the Business as outlined in Appendix A, in the name of  
27 the Company as issuing Company, as each individual policy may require or  
28 dictate.

The authority of the Manager to act on behalf of the Company shall be subject to  
the guidelines established by the Company (including without limitation those set  
forth in Appendix B hereto, and incorporated herein by reference, which shall  
include, but not be limited to

1. the acceptance and declination of risks;
2. the issuance, cancellation of contracts of insurance;
3. the collection and payment of premiums and return premiums on such insurance contracts;

4. the rejection, adjustment, compromise and payment of losses and any expenses incidental thereto;
5. the recovery of losses and expenses from the Company and/or its reinsurers, if any;
6. the payment of all taxes and fees imposed by any government or agency thereof applicable to the Business other than premium taxes;
7. the payment of all dues and all other expenses connected with the Business;
8. the determination of what constitutes a "risk," and "insured," a "claim" and a "loss;"

And generally do everything necessary and incidental to the performance of any service required of the Manager under this Agreement.

#### Appendix A

The coverages and limits shall be included within the Manager's authority hereunder:

1. Coverages in all states in which the Company is authorized as an approved surplus lines carrier and where coverages are eligible for export for:

Casualty excess of loss insurance; and

Certain Other Property Casualty Risks as may be approved by the Company from time to time.

2. Limits:

For any one risk – a maximum limit of liability of \$5,000,000 (five million dollars) in the currency of the United States of America for each and every claim and in the aggregate.

In no event will Manager bind the Company to a policy limit greater than the amounts provided for herein except to the extent that Manager has received express approval in advance from Company.

#### Appendix B

The following guidelines shall be binding upon both the Company and the Manager as respects the Business produced under this Agreement:

1. The Company maintains custody of, responsibility for and control of all investments and the Manager shall have no authority in connection therewith.

2. The Company maintains responsibility for and control of the arrangement for, and placement of, all reinsurance, and the Manager shall have no obligation or authority in connection therewith.
3. The Manager shall maintain for the Company general corporate accounts and records which shall be the property of the Company.
4. The Company maintains the ultimate veto on underwriting and right to cancel any risk.
5. The Company maintains the ultimate veto on appointment or agents and the ultimate power to cancel any agency.
6. The Company maintains the ultimate responsibility for a general control of claims adjustments and claims payments.
7. The Company retains an ultimate veto right over commission rates.
8. The Manager shall not, subject to the Company's determination be in a position of managing an insurer or reinsurer in direct competition with the Company.
9. The Manager agrees that all Company funds collected or held by it pursuant to this Agreement are held by it in a fiduciary capacity.
10. The Manager agrees not to use the Company name or logo or reference to either in any advertising or promotion without the Company's prior approval.

and said Agreement was in effect until an Amended Agreement entitled "California Wholesale Surplus Lines Broker and Limited Binding Authority Agreement" was executed on July 19, 2011, with an earlier effective date of May 16, 2011; and,

WHEREAS, ADMIRAL RISK, transacted surplus and excess liability insurance with ADMIRAL INSURANCE COMPANY through Surplus Lines Brokers without a Surplus Line Broker license from May 2005 to about June 15, 2011 and did not obtain a Surplus Line Broker license until or about June 16, 2011; and,

WHEREAS, KARPETYAN, hired by ADMIRAL RISK in May 2005 as an "Underwriter" obtained his Fire and Casualty Broker-Agent license on or about July 27, 2009; transacted surplus and excess liability insurance with ADMIRAL INSURANCE COMPANY through Surplus Lines Brokers without a Surplus Line Broker license from May 2005 to about June 12, 2011; did not obtain a Surplus Line Broker license until or about June 13, 2011; and, was re-titled as an "Account Executive" by ADMIRAL RISK on or about May 16, 2011; and,

1 WHEREAS, LINEBERGER, hired by ADMIRAL RISK in May 2005 as its President and  
2 obtained his Fire and Casualty Broker-Agent license on or about August 31, 2006; did not obtain  
3 a Surplus Line Broker license until or about June 13, 2011; oversees ADMIRAL RISK insurance  
4 offices in Los Angeles, Chicago, and Stamford, CT, hires new employees; and, transacted surplus  
5 and excess liability insurance with ADMIRAL INSURANCE COMPANY as an "Account  
6 Executive" with ADMIRAL RISK through Surplus Lines Brokers without a Surplus Line Broker  
7 license from May 2005 to about June 12, 2011; and,

8 WHEREAS, MILLER, hired by ADMIRAL RISK in May 2005 as a Regional Branch  
9 Manager and has held a Fire and Casualty Broker-Agent license since December 19, 2002;  
10 oversees branch employees, conducts business with wholesale Surplus Lines Brokers, reports to  
11 LINEBERGER, trains new ADMIRAL RISK employees; transacted surplus and excess liability  
12 insurance with ADMIRAL INSURANCE COMPANY as an "Account Executive" with  
13 ADMIRAL RISK through Surplus Lines Brokers without a Surplus Line Broker license from  
14 May 30, 2005 to about May 25, 2011; and, did not obtain a Surplus Line Broker license until or  
15 about May 26, 2011; and,

16 WHEREAS, ADMIRAL RISK has aided and abetted ADMIRAL INSURANCE  
17 COMPANY, an entity not licensed to transact the business of insurance in California, to transact  
18 insurance with California residents, in violation of California Insurance Code section 703; and,

19 WHEREAS, MESSRS. KAREPETYAN, LINEBERGER, AND MILLER have aided and  
20 abetted ADMIRAL INSURANCE COMPANY, an entity not licensed to transact the business of  
21 insurance in California, to transact insurance with California residents, in violation of California  
22 Insurance Code section 703; and,

23 WHEREAS, ADMIRAL RISK has been engaged in the unlawful activity set forth herein  
24 most recently from about November 2003 to about June 2011; and,

25 WHEREAS, MESSRS. KAREPETYAN, LINEBERGER, AND MILLER have been  
26 engaged in the unlawful activity set forth herein most recently from their respective appointment  
27 dates with ADMIRAL RISK to about June 2011; and,

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1 WHEREAS, ADMIRAL INSURANCE COMPANY is not now or has ever been licensed  
2 by the Commissioner to transact an insurance business as an insurer, and has been engaged in the  
3 unlawful activity set forth herein most recently from about November 2003 to about June 2011;

4 NOW THEREFORE, ADMIRAL INSURANCE COMPANY IS HEREBY ORDERED to  
5 SHOW CAUSE why the facts recited above do not establish grounds for the Commissioner to  
6 impose a monetary penalty pursuant to Insurance Code section 12921.8 of five times the amount  
7 of money received by you while acting in the capacity for which a license, registration or  
8 certificate of authority was required but not possessed, or five thousand dollars (\$5,000) for each  
9 day you have acted in the capacity for which a license, registration or certificate of authority was  
10 required but not possessed, whichever is greater; and,

11 NOW THEREFORE, ADMIRAL RISK INSURANCE SERVICES, INC. AND MESSRS.  
12 KARAPETYAN, LINEBERGER, AND MILLER ARE HEREBY ORDERED to SHOW  
13 CAUSE why the facts recited above do not establish grounds for the Commissioner to impose a  
14 monetary penalty pursuant to Insurance Code section 12921.8 of five times the amount of money  
15 received by any of you while acting in the capacity for which a license, registration or certificate  
16 of authority was required but not possessed, or five thousand dollars (\$5,000) for each day any of  
17 you have acted in the capacity for which a license, registration or certificate of authority was  
18 required but not possessed, whichever is greater.

19 **HEARING**

20 Insurance Code Section 12921.8(c) provides in part, as follows:

21 "A person to whom a cease and desist order or order  
22 to show cause is issued, may, within seven days after  
23 service of the order, . . . request a hearing by filing a  
request for a hearing with the commissioner."

24 If a hearing in this matter is desired, a written request for a hearing must be received  
25 within seven days after personal service of the order. The seven days begins to run on the day  
26 after the day service is effectuated, and if the seventh day falls on a weekend, the period in which  
27 the request must be filed is extended until Monday or the next business day if Monday is a  
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1 holiday. The written request for a hearing must be directed to: Teresa R. Campbell, Assistant  
2 Chief Counsel, California Department of Insurance, 45 Fremont Street, 21st Floor,  
3 San Francisco, California 94105.

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5 IN WITNESS WHEREOF, I have set my hand and affixed my official seal this 14<sup>th</sup>  
6 day of August, 2014.

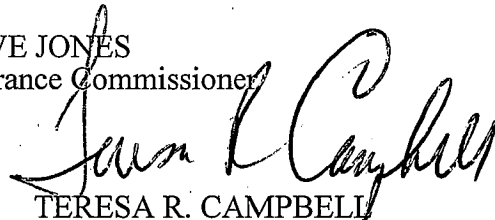
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DAVE JONES  
Insurance Commissioner

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By:

  
TERESA R. CAMPBELL  
Assistant Chief Counsel

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